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AGENDA ITEM 12

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Fiscal Year 2008-09 Budget Proposals (Second Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATIONS:**
- (1) The Committee accept the proposed California Public Employees' Retirement System (CalPERS) 2008-09 Administrative Budget of \$332,133,000 and 2,298 positions and recommend the Board of Administration (Board) approve the Budget as a second reading.
 - (2) The Committee accept the proposed CalPERS 2008-09 Enterprise Projects Budget of \$143,253,000 and recommend the Board approve the Budget as a second reading.
 - (3) The Committee accept the proposed 2008-09 CalPERS Headquarters Building Account (CHBA) Budget of \$36,181,000 and recommend the Board approve the Budget as a second reading.
 - (4) Approve the transmittal of this agenda item to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2007, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of the Legislative Counsel.

IV. ANALYSIS

In March, the Board approved a 2008-09 proposed Administrative Budget of \$331,319,000 and 2,297 positions. The proposal for the second reading of the Administrative Budget now totals \$332,133,000 and 2,298 positions. Revisions have been made to this item between the first and second readings and are as follows:

- During the 2007-08 mid-year budget process, the Privacy Protection and Security Task Force (Task Force) was established and received \$104,000 to fund two 18-month limited-term positions, and \$250,000 for consulting services. Staff recommends approving one additional position and funding of \$193,000 in 2008-09 and \$402,000 ongoing to permanently establish the Task Force. The \$193,000 represents funding for the new position, plus the difference needed to fund one position at a higher classification than approved in the 2007-08 mid-year budget, and consulting services. This additional request was verbally presented during the first reading of the 2008-09 proposed budget at the Finance Committee meeting in March.
- Based on a revision from the Department of Finance, the Pro Rata amount has been increased by \$621,000 since the first reading. Pro Rata is the recovery of State central service administrative costs from special and non-governmental cost funds. Examples of these costs include accounting, computing, payroll services, banking, etc. to operating agencies (departments) on a centralized basis.

Other than the adjustments identified above, all other amounts remain unchanged since the first reading.

BUDGET SUMMARY

The proposed 2008-09 budget for all budgetary categories is \$1.6 billion and 2,298 positions. Table 1 displays the categories that comprise the proposed 2008-09 budget. Additional information regarding the \$1.6 billion proposed budget is displayed on Attachment 1.

Table 1

Category	Budget (in millions)	Positions
Administrative Budget	\$332.1	2,298
Enterprise Projects	143.3	
CalPERS Headquarters Building Account	36.2	
Investment Expenses*	1,004.0	
Directed Brokerage Expenses*	2.0	
Third Party Reimbursements*	88.7	
Total	\$1,606.3	2,298

* Informational

Staff recommends approval of the Administrative, Enterprise Projects, and CHBA Budgets. An analysis of these three proposed budgets is presented in the sections below.

ADMINISTRATIVE BUDGET

The proposed 2008-09 Administrative Budget is \$332.1 million and 2,298 positions and is comprised of two main components:

- Formal Budget Requests (FBRs), and
- Technical Adjustments.

Formal Budget Requests

Under the Board of Administration's (Board) guidance, staff engage in an ongoing planning process to support CalPERS' mission. The results of this planning process are articulated in the Strategic Plan and the Three-Year Business Plan which are then integrated into the budget development process.

The proposed budget provides the resources needed to support the Board's strategic direction for 2008-09. This strategic direction includes sustaining a high-performance work culture and designing and developing education and communication initiatives. It also includes achieving long-term, sustainable, risk-adjusted returns on its assets and developing and administering quality, sustainable health benefit programs.

The resource requests included in the proposed 2008-09 budget are the result of a rigorous business planning and analysis process, which began in August 2007, with the development of Concept Papers. At that time, the Department of Finance began projecting a significant budget deficit for the State. Acknowledging the State's financial situation, consideration was given to the Enterprise's ability to use existing resources and the impact of postponing or reprioritizing workload. The objective was to assess enterprise priorities and

request minimal resource needs to achieve CalPERS' Strategic Plan goals in 2008-09.

The total amount of Administrative Budget requests from the Concept Papers was initially \$18.2 million and 104 positions. Subsequently, CalPERS' Executive and Senior leadership met several times to reevaluate and carefully prioritize these resource requests to see where reductions could be made. During this process, \$9.2 million and 1 position were withdrawn. Staff later determined that 17 positions had already been accounted for in previous FBRs, so authority for these positions was not requested. As a result of this effort, the Administrative Budget's funding request was adjusted to \$9 million and 87 positions. These requests were then approved by Executive leadership to be submitted as FBRs.

Staff evaluated the FBRs for proper workload justification and the ability to fund needs through the redirection of existing resources. After completing this thorough analysis, staff is recommending approval of FBRs totaling \$8.8 million (of which \$1.1 million is one-time funding) and 87 positions. These requests are displayed by Strategic Goal Category in Table 2 below.

Table 2

2008-09 Budget Requests by Strategic Goal Categories	
	Dollars (in millions)
Enterprise – Goals I, II, III, IV	\$5.0
Pension – Goals V, VI, VII	2.3
Asset and Liability Management – Goals VIII, IX	1.1
Health – Goal X	0.4
Total	\$8.8

Summary and detailed information about the individual requests is provided in Attachments 3 and 3.1, respectively.

Technical Adjustments

The proposed 2008-09 Administrative Budget includes \$5,574,000 in technical adjustments. Technical adjustments are primarily related to general salary increases and Pro Rata changes.

Administrative Budget Summary

The approved 2007-08 mid-year budget is \$328.9 million. Taking into account the one-time items included in that budget and staff's recommendations for FBRs and technical adjustments, the proposed Administrative Budget for 2008-09 would be \$332.1 million and 2,298 positions. This is a net increase of \$3.2 million, or 1.0 percent, from the 2007-08 mid-year budget.

ENTERPRISE PROJECTS BUDGET

The proposed 2008-09 Enterprise Projects Budget is \$143,253,000. This Budget is comprised of funding for the Pension System Resumption (PSR) Project (Year 5), the Enterprise Transition Management (ETM) Project, the INVO's Automated Real Estate Investment System (AREIS) Project, and INVO's Telecommunications Infrastructure Replacement Project. Table 3 displays the categories for the proposed 2008-09 budget.

Table 3

2008-09 Enterprise Projects Budget	
	Dollars (in millions)
PSR:	
Project Design and Implementation	\$74.3
Change Control	1.5
Project Management Support	2.4
Contract Staff	6.5
Enterprise Technology Architecture	5.8
Data Center Virtualization	1.4
Program Backfill	12.0
Data Cleanup and Integrity Unit	14.5
Independent Project Oversight	2.2
Project Equipment and Software	2.7
Project Manager and 2.0 State Support Staff	0.4
Legal Costs	0.4
Subtotal	\$124.1
ETM:	
Consultants	\$9.3
Independent Project Oversight	0.5
Training; Support for Transition Mgmt Office	1.2
Subtotal	\$11.0
Investment Office:	
AREIS Project, Phase 2	\$5.0
Telecommunications Infrastructure Replacement	3.1
Subtotal	\$8.1
Grand Total	\$143.2

CalPERS' HEADQUARTERS BUILDING ACCOUNT BUDGET

Staff recommends approval of \$36,181,000 for the 2008-09 proposed CHBA Budget. This Budget represents a decrease of \$400,000 from the 2007-08 budget, primarily due to an overall decrease in one-time projects offset by increases in facilities support and operating expenses. Table 4 displays the categories that comprise the proposed 2008-09 budget.

Table 4

CHBA Categories	Dollars (in thousands)
Operating Expenses:	
Building	\$13,701
Non-Building & Off-Site Expenses	1,223
Non-Operating Expenses:	
Routine Owner & Building Improvements	7,218
One-Time Projects	6,694
Facilities Support:	7,345
Total	\$36,181

Attachment 7 provides additional information about the proposed CHBA Budget.

V. STRATEGIC PLAN:

CalPERS has an integrated planning and budget process. The process is integrated with the Three-Year Business Plan and aligns with CalPERS' strategic goals and objectives. The proposed 2008-09 budget supports these goals and objectives.

VI. RESULTS/COSTS:

Staff recommends approval of an Administrative Budget of \$332,133,000 and 2,298 positions. This budget represents a 1.0 percent increase from the current mid-year budget of \$328.9 million. Staff also recommends approval of \$143,253,000 for the Enterprise Projects Budget, and \$36,181,000 million for the CHBA Budget.

If accepted by the Finance Committee and approved by the Board at the April 23, 2008, meeting, the 2008-09 budget will take effect July 1, 2008.

In accordance with control language included in the Budget Act of 2007, the information contained in this agenda item will be submitted to the Joint Legislative Budget Committee and the fiscal committees of the Legislature, State

Controller, and the Department of Finance. It will also be provided to the Legislative Analyst's Office, and Secretary of the State and Consumer Services Agency. Submitting this agenda item will take place upon acceptance by the Finance Committee and approval by the full Board. A draft transmittal letter is attached for your review.

VII. ATTACHMENTS

The following attachments contain details for the FY 2008-09 proposed budgets/projected expenditures:

- Attachment 1 Proposed FY 2008-09 Budget
- Attachment 2 Administrative Budget Summary by Object of Expenditure
- Attachment 3 Summary of Formal Budget Requests
- Attachment 3.1 Details of Formal Budget Requests
- Attachment 4 Budget by Fund Source
- Attachment 5 Summary of Budgeted Positions
- Attachment 6 Budgets by Basis Points
- Attachment 6.1 Six Year Basis Points History
- Attachment 7 CalPERS Headquarters Building Account Budget
- Attachment 8 Projected Investment Expenditures
- Attachment 9 Directed Brokerage Program Estimated Commissions and Expenditures
- Attachment 9.1 Directed Brokerage Participants
- Attachment 9.2 Estimated Directed Brokerage Expenditures by Category and Vendor
- Attachment 10 Third Party Administrators

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Attachments